

CIRCULAR LETTER

To

ALL COMMERCIAL BANKS  
THAT CONDUCT BUSINESS ACTIVITIES IN CONVENTIONAL MANNER  
IN INDONESIA

Subject: Reporting of New Product or Activity

In relation to the issuance of Bank Indonesia Regulation Number 5/8/PBI/2003 concerning Implementation of Risk Management for Commercial Banks (State Gazette of the Republic of Indonesia Number 56 of 2003, Supplement to the State Gazette of the Republic of Indonesia Number 4292) as amended by Bank Indonesia Regulation Number 11/25/PBI/2009 (State Gazette of the Republic of Indonesia Number 103 of 2009, Supplement to the State Gazette of the Republic of Indonesia Number 5029), there is a need to further regulate procedure for the reporting of new products and activities in a Bank Indonesia Circular Letter, with the following stipulations:

I. GENERAL

- A. Products and activities offered by the banking industry, particularly new products and activities, have become more complex and varied. This has prompted risk exposure, which is borne by Bank from the issuance of products and execution of activities, becomes higher.
- B. The rise in risk being faced by Bank should be balanced with adequate risk control. To control the said risk, Bank needs to enhance quality of the implementation of Risk Management.
- C. Enhancement of quality of the Risk Management implementation, particularly in regard new products or activities, is among others conducted through enhancement of the quality of Bank new product or activity reporting by observing prudential principle, legal aspect, staff competency, and infrastructure readiness (including policies and procedures).
- D. The need to enhance quality of the Risk Management implementation is not intended only for Bank's interest, but also for the interest of customers. One of the important aspects in the framework of risk control as well as customer interest

protection is the adequacy of information transparency related to Bank products or activities.

## II. NEW PRODUCTS OR ACTIVITIES

### A. Definition of Bank Product or Activity

With reference to the explanation of Article 20 paragraph (1) of BI Regulation Number 5/8/PBI/2003 concerning Implementation of Risk Management for Commercial Banks as amended by BI Regulation Number 11/25/PBI/2009, hereinafter shall be referred to as BI Regulation, terminologies used in this Circular Letter have the following meanings:

1. Bank Product is a financial instrument issued by Bank. The said Bank Product means a product that is created, issued, and/or developed by Bank in the framework of fund accumulation and channeling, which covers among others demand deposits, savings deposits, term deposits, bonds, credits, medium term notes, derivative products, and principally protected structured products.
2. Bank Activity is a service provided by Bank for customers, which covers among others agency services and/or custodian.

### B. Criteria of New Product or Activity

With reference to the explanation of Article 20 paragraph (3) of BI Regulation, a Bank product or activity constitutes a new product or activity when meeting the following criteria:

1. has previously not been issued or executed by Bank; or
2. has previously been issued or executed by Bank but development has changed or raised certain Risk exposure to Bank.

Development that has changed and raised certain Risk exposure on Bank product or activity covers among others:

- a. Development on Bank product that has previously been issued by Bank, for example are:
  - 1) Issuance of bonds with coupon rate and/or maturity that is different than those that have been issued previously.

- 2) Issuance of principally protected structured product with a change in maturity and/or its underlying asset from those that have been previously issued.
- b. Development of Bank activity that is an activity in cooperation with another party, which in its development requires the approval of or reporting to an authorized authority, such as the addition or change in partners in the undertaking of fund transfer activity.

C. Reporting of New Product or Activity

1. Bank is obliged to submit reports for each issuance of new product or execution of new activity to Bank Indonesia comprising of:
  - a. Report on Plan to Issue New Product or Execute New Activity; and
  - b. Report on Realization of Issuance of New Product or Execution of New Activity.

In addition to meeting the reporting stipulation as referred to above,

For a new product that has previously never been issued or a new activity that has previously never been conducted by Bank as referred to in point II.B.1, the plan for new product issuance or new activity execution should be stated in Bank Business Plan for the same year as the said plan for new product issuance or new activity execution.

2. Stating of the plan for new product issuance or new activity execution in Bank Business Plan as referred to in number 1 should use the format as referred to in Attachment 1, which contains at least the following information and explanations:
  - a. type of new product or activity;
  - b. planned timing for issuance of the new product or execution of the new activity;
  - c. purpose of the issuance of the new product or execution of the new activity;
  - d. interrelation between the new product or activity with Bank's strategy;
  - e. general description concerning the new product or activity; and
  - f. risk that might arise from the issuance of the new product or execution of the new activity.
3. Report on Plan to Issue New Product or Execute New Activity as referred to in number 1 letter a is stipulated as follows:

- a. The report should be submitted no later than 60 (sixty) days prior to issuance of new product or execution of new activity.
- b. The said report should at least contain the following information and explanations:
  - 1) general information concerning the new product or activity, which covers among others name of product/type of activity, planned timing of product issuance or activity execution, market target, planned/targeted transaction value in the first 1 (one) year, information concerning the scheme/feature of the product or explanation concerning the activity;
  - 2) benefit and cost to Bank;
  - 3) benefit and risk to customers;
  - 4) standard operating procedure, organization, and authority to issue the new product or execute the new activity;
  - 5) plan on policies and procedures in relation to implementation of the Anti-Money Laundering and Prevention of Terrorism Funding program;
  - 6) identification, measurement, monitoring, and control of risk that are inherent in the new product or activity;
  - 7) results on analyses of the legal aspect and compliance aspect on the new product or activity;
  - 8) documents/draft documents in the framework of transparency to customers in relation to product issuance or activity execution, which cover among others agreement between Bank and customer or another party, brochure, leaflet, prospectus, and/or application form;
  - 9) accounting information system, which includes brief explanation concerning the interrelation between the said accounting information system and Bank's overall accounting information system, and/or administrative recording system;
  - 10) document stating that Bank has obtained approval or license from authorized authority, if the said Bank's activity requires the approval of that authority.

In the event the said document has not been issued, Bank can submit a photocopy of the proof on application for approval or license from the authorized authority. Further on, after the authority issues the approval or license, Bank is obliged to submit it to Bank Indonesia to complete document requirements; and

- 11) Bank's readiness or result of trial test (if available) on the new product or activity.

Format of the Report on Plan to Issue New Product or Execute New Activity shall refer to Attachment 2.

- c. Bank can only issue the new product or execute the new activity after receiving confirmation from Bank Indonesia.

Confirmation from Bank Indonesia shall be given no later than 60 (sixty) days after all requirements have been met and complete reporting documents have been received by Bank Indonesia.

- d. In the event additional documents and/or explanations are required in relation to the evaluation performed by Bank Indonesia, Bank is obliged to submit the required documents and provide the required explanations. The deadline of 60 (sixty) days is calculated since Bank has submitted documents and/or provided explanations completely as required by Bank Indonesia.

4. Bank should issue the new product or execute the new activity no later than 6 (six) months since the date of the confirmation letter from Bank Indonesia. In the event Bank plans to issue the new product or execute the new activity after the time limit provided, Bank must resubmit the Report on Plan to Issue New Product or Execute New Activity according to the stipulations in this Bank Indonesia Circular Letter.
5. Report on Realization of Issuance of New Product or Execution New Activity as referred to in number 1 letter b should be submitted no later than 7 (seven) working days after the new product has been issued or new activity has been executed.

Bank is deemed to have realized issuance of the new product or execution of the new activity since the date the product or activity starts to be offered and can be bought or its benefit can be obtained by customers.

Report on Realization of Issuance of New Product or Execution of New Activity shall contain at least the following information and explanations:

- a. type and name of new product or activity;
  - b. date of issuance of new product or execution of new activity; and
  - c. consistency of the new product issued or new activity executed with the Report on Plan to Issue New Product or Execute New Activity that has been submitted.
6. Bank Indonesia can instruct Bank to discontinue the issuance of product or execution of activity in the event when in the future based on Bank Indonesia's evaluation the product issued or activity executed meets the following conditions:
- a. being not in line with the plan to issue a new product or execute a new activity reported to Bank Indonesia;
  - b. having the potential to cause significant losses to Bank's financial condition; and/or
  - c. being not in line with prevailing legislations.
- This discontinuation can be temporary or permanent based on Bank Indonesia's assessment on the deviation that has occurred.
7. In relation to the discontinuation of product issuance or activity execution as referred to in number 6 above, Bank:
- a. is prohibited from undertaking new transactions; and
  - b. is still responsible to customers on settlement of obligations related to the product that had been issued or activity that had been executed;
8. The reporting obligation as referred to in number 1 does not cover activities undertaken by Bank in the framework of:
- a. fund placement in the framework of investment, such as purchase of fixed-income Mutual Fund and purchase of marketable securities by Bank;

- b. fund channeling and accumulation in the framework of liquidity management, such as inter-bank placements or receipts from inter-bank loans;
- c. receipts from loans from other parties, such as a loan received by Bank from a multilateral institution; and/or
- d. development of conventional products or activities that have previously been issued or executed by Bank, which changes or raises certain Risk exposure to Bank.

Conventional products include products that have the basic features that are in accordance with the characteristic of that product, such as demand deposit, savings deposit, term deposit, certificate of deposit, credits, factoring of receivables, derivative products that are plain vanilla, bank guarantees, and trade finance.

Conventional activities include:

- 1) Bank activities that are undertaken without cooperation with other parties, such as fund transfer services and custodian activities; and/or
- 2) Bank's activities related to the sales of products issued by the Government, such as activities as selling agent of Government Securities (SUN), and activities as selling agent of Indonesian Retail Bonds (ORI).

#### D. Prohibition related to Marketing of Product or Activity

In reference to Article 20A of BI Regulation, Bank is prohibited from assigning or giving approval to Bank management and/or staff to market products or execute activities that are not Bank's products or activities by using Bank's facilities, including:

- 1. marketing products that are stated as Bank's products but are not recorded in Bank's book or administration, such as Bank management or staff selling products that are stated as Bank's term deposits to customers, however, those deposits are never recorded in Bank's book; and/or
- 2. marketing Bank's product or activity that meets the criteria of a new product or activity, however, it has not been reported and/or has not obtained

confirmation from Bank Indonesia; for example, Bank is acting as a selling agent of Mutual Fund A, however, Bank has not been recorded at Bank Indonesia as a selling agent of Mutual Fund A.

### III. OTHER MATTERS

- A. In the event the issuance of a new product or execution of a new activity is already specifically stipulated in another Bank Indonesia regulation and meets the principles of Risk Management implementation as stipulated in this Bank Indonesia Circular Letter, the issuance of the new product or execution of the new activity shall refer to that specific regulation. For example, execution of the provision of Card-Based Payment Instruments, issuance of Structured Product, and use of Information Technology shall refer to Bank Indonesia regulations that stipulated such matters.
- B. The reporting of certain activities, such as the activity of Mutual Fund selling agent and activity of marketing cooperation with insurance companies (bancassurance) are separately regulated in Circular Letters that provides for Risk Management implementation for those certain activities.

### IV. TRANSITIONAL PROVISIONS

- A. Bank, which has issued new products or executed new activities after 1 July 2009 and prior to the effectiveness of this Bank Indonesia Circular Letter however has not submitted reports in accordance with its stipulations, is obliged to submit reports in accordance with this Bank Indonesia Circular Letter. Report submission shall be no later than 60 (sixty) days after the effectiveness of this stipulation supplemented with documents as referred to in point II.C.3.b and point II.C.5 of this Bank Indonesia Circular Letter.
- B. In the event Bank has submitted Report on Plan to Issue New Product or Execute New Activity prior to the effectiveness of this Bank Indonesia Circular Letter, however Bank Indonesia has not given a confirmation letter, Bank is obliged to adjust that report in accordance with this Bank Indonesia Circular Letter.

### V. CLOSING PROVISIONS

At the time this Circular Letter becomes effective, provisions as stipulated in number 10, Attachment 1 Chapter IV number 4 and number 5, and Attachment 7 of Bank



Indonesia Circular Letter Number 5/21/DPNP dated 29 September 2003 concerning Implementation of Risk Management for Commercial Banks and other implementing stipulations related to the implementation of Risk Management that are in conflict with the stipulations of this Circular Letter are hereby revoked and declared no longer valid.

This Bank Indonesia Circular Letter becomes effective as of 31 December 2009.

For the public to be informed, it is ordered that this Circular Letter be promulgated in the State Gazette of the Republic of Indonesia.

Kindly be informed.

BANK INDONESIA

HALIM ALAMSYAH

DIRECTOR OF BANKING RESEARCH  
AND REGULATION